CITY OF BURBANK FINANCIAL POLICIES

1. ***We will maintain a designated General Fund working capital reserve equivalent to 15% of the General Fund's operating budget and a designated emergency reserve equivalent to 5% of the General Fund's operating budget.***

2. ***We will maintain a balanced operating budget for all governmental funds with recurring revenues equal to or greater than recurring expenditures. Appropriations of available fund balance will only be permitted for "one-time" non-recurring expenditures.***

3. ***We will assume that normal revenue inflation and/or growth will go to pay normal inflation expenditures. In no event will normal expenditure increases be approved which exceed normal revenue inflation and/or growth. Any new or expanded programs will be required to identify new funding sources and/or off-setting reductions in expenditures in other programs.***

4. ***We will require that all Enterprise Funds have revenues (customer charges, interest income, and all other income) sufficient to meet all cash operating expenses, depreciation expense, and prescribed cash reserve policies per financial policies as recommended for each enterprise activity. Additionally, each Enterprise Fund will maintain debt service coverage requirements set forth in any related bond covenants.***

5. ***We will require that each Internal Service Fund which includes vehicles, equipment, and building maintenance have revenues, (City user charges, interest income, and all other income) sufficient to meet all cash operating expenses and depreciation expenses. The related revenues should also be sufficient to maintain cash reserves which provide sufficient cash to replace vehicles and equipment in accordance with replacement policies.***

6. ***We will maintain appropriate reserves in the Risk Management Self-Insurance Fund and the Workers' Compensation Self – Insurance Fund to meet statutory requirements and actuarially projected needs.***

7. *We will maintain a general operating reserve which will support operations for each Enterprise Fund during times of financial emergencies. The amount of the general operating reserves will be determined based on a risk assessment of each Enterprise Fund.*

8. *We will maintain other Enterprise Fund reserves such as debt reduction and capital funding reserves, fleet replacement reserves, and general plant reserves (in addition to the general operating reserve and other reserves) as necessary and prudent for the operation of the specific Enterprise Fund. Such reserves will be reviewed as necessary during the annual budget process, or at least every two years.*

9. *We will maintain a long-range fiscal perspective through the use of an annual operating budget, a five-year capital improvement plan, and a five-year financial forecast.*

10. *We will use long-term financing methods or cash accumulated in excess of policy requirements for major capital improvements and acquisitions. These improvements will be planned via the annual capital improvement plan process.*

11. *We will issue bonds or incur other terms of indebtedness only for appropriate purposes and only if the debt service does not effect the City's ability to meet future operating, capital and reserve requirements.*

12. *We will require each budget appropriation request to include a fiscal impact analysis.*

13. *We will comply with all the requirements of "Generally Accepted Accounting Principles."*

14. *Subject to these Financial Policies, and in order to recruit and retain a well-qualified workforce to provide exceptional services, we will compensate employees at a level commensurate with the average of Burbank's relevant labor market. The City and employees will evenly share the Normal Cost of employee pensions.*

We will maintain a designated General Fund working capital reserve equivalent to 15% of the General Fund's operating budget and a designated emergency reserve equivalent to 5% of the General Fund's operating budget.

General Fund

Unforeseen developments and crises occur more often than not in any given budget year. Maintaining reserves is considered a prudent management practice and can be used for numerous unforeseen situations. Examples of potential uses and drawdowns include:

- Federal/State/County budget cuts;
- Local revenue shortfall due to major business closures or relocations;
- Increase in demand for a specific service;
- Legislative or judicial mandate to provide a new/or expanded service or programs;
- One-time City Council approved expenditure;
- Unexpected increase in inflation (CPI); and,
- Natural disaster (earthquake, flood, etc.)

In an effort to ensure the continuance of sound financial management of public resources, the City Council has directed staff to maintain a 20% unappropriated General Fund reserve amount. This reflects a "working capital" reserve of 15% and an "emergency contingency" reserve of 5%. It should be clarified that this 20% minimum reserve amount is to be applied to the General Fund's recurring operating budget only. One-time (non-recurring) expenditures, as well as internal service fund rates will not be used to calculate the 20% reserve amount.

If unforeseen circumstances occur which cause the reserves to drop below their prescribed levels, then staff will immediately present the City Council with various options for curing the deficiency(ies).

<u>15% "Working Capital" Reserve</u>

The City Council has directed staff to maintain a "working capital" reserve in the General Fund. This reserve represents an amount necessary to fund 55 days (nearly two months) of the General Fund's operations. In the event that the State or Los Angeles County failed to remit revenues to the City or a major/regional natural disaster occurred, which would delay the payment of revenues, maintaining such a reserve would allow the City to be able to provide General Fund services for roughly two months. A common "working capital" reserve standard that bond rating agencies and bond insurance companies look for ranges anywhere from 45 to 60 days. Additionally, this % driven reserve provides a reserve that will grow as the budget grows.

<u>5% "Emergency Contingency" Reserve</u>

The City Council has also directed staff to maintain a separate 5% "emergency contingency" reserve in the General Fund. This reserve represents the minimum "emergency contingency" reserve the bond rating agencies and bond insurance companies recommend cities maintain to deal with local disasters, emergencies, and/or unexpected appropriation needs.

- Reserve Drawdown and Replenishment Example:

  If the General Fund operating budget for a year were $100,000,000, (recurring salaries and benefits, material, service and supplies; less internal service fund rates) a total of $20,000,000 (20%) must be maintained in designated reserves. Drawing down on such reserves (below the 20% threshold) can only take place after receiving City Council authorization to do so. These reserves, if drawn down, will be replenished out of available budgetary savings until replenished. The 20% reserve amount, in this case $20,000,000, would be adjusted at the beginning of each fiscal year, depending on the size of the new budget. For example, if the operating budget grew to $110,000,000 in the following year, the reserve would have to be increased to $22,000,000 (20% of $110,000,000).

Special Revenue Funds

Reserve levels are established as appropriate for the specific fund. Reserve levels for the Prop A, Prop C, and Gas Tax funds will be maintained at the same levels as the General Fund; while the other special revenue funds will maintain reserves as appropriate and or according to grantor requirements.

Debt Service Reserve Funds

Reserve levels will be established as prescribed by the bond covenants adopted at the time of issuance of debt.

-2-

We will maintain a balanced operating budget for all governmental funds with recurring revenues equal to or greater than recurring expenditures. Appropriations of available fund balance will only be permitted for "one-time" non-recurring expenditures.

General Fund

This policy requires that in any given fiscal year we do not budget recurring appropriations in excess of the revenue we expect to receive in the same year. This "pay as you go" approach mandates that any increase in expenditures, decreases in revenues, or combination of the two that would result in a budget imbalance will require cost cutting and/or revenue enhancement, rather than spending unappropriated surpluses or designated reserves to support ongoing operations. Cost cutting measures may include reductions in staff (either through eliminating vacant positions, attrition, hiring freezes, or actual lay-offs), or reductions in expenditures for materials, services, and supplies. Expenditure reductions may very well result in reduced service levels.

Revenue enhancement would generally be in the form of new or increased taxes and fees. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining policy-set reserve levels, and the remaining balances will be available for one-time carry-over expenditures, including capital improvement projects, or limited term expenditures.

Budget Stabilization Fund

In order to better deal with budget challenges that may arise, a Budget Stabilization Fund has been established. At City Council direction, annual budget savings at the end of the fiscal year may be placed into this stabilization fund. This fund is designed as a safety valve to help mitigate short-term budget deficits.

PERS Stabilization Fund

Due to the volatility of PERS retirement rates, a PERS Stabilization Fund has been established to address future rate increases. The PERS Stabilization Fund is funded by budgeting PERS rates in excess of the actual PERS rates to prepare for future increases. The budgetary PERS rates will never fall below the normal cost of the PERS retirement plan. This fund will assist in smoothing the impact of fluctuating PERS rates.

Utility Users Tax (UUT) & In-Lieu Tax (ILT) Set Aside Account

These funds relate to UUT and ILT revenues, in addition to the related interest earnings on these amounts, generated from electric rates which are projected to decrease in the future. Traditionally, at City Council direction, these revenues have been used for one-time projects. As a result of recent budget challenges, these revenues are also used to assist in balancing the budget.

Pension Obligation Bond (POB)

During fiscal year 2003-2004, the City established a $10 million Pension Obligation Bond reserve. The POB paid the City's Public Employees Retirement System (PERS) Police and Fire Unfunded Accrued Actuarial Liability (UAAL) as of the issuance date of the POB. The result of the transaction reduced the City's average annual pension costs by approximately $520,000. The POB reserve will serve to mitigate the future risk of rising interest rates. Interest associated with the $10 million will be credited to the POB reserve and will increase as interest rates rise. The City also maintains the flexibility to use the $10 million reserve fund to prepay the variable rate POB every 30 days based on City Council direction.

Infrastructure Replacement Reserve

To address citywide infrastructure needs, $2 million of non-recurring General Fund monies have been placed in an Infrastructure Replacement Reserve in fiscal year

2004-05. The goal is to fund $1 million per year out of excess budget savings if available.

Special Revenue Funds

In the Special Revenue Funds, (Prop A* and Prop C Transportation*, Air Quality Management District, Housing Vouchers, Supplemental Law Enforcement Services, Community Development Block Grant, Drug Asset Forfeiture, State Gas Tax*, Disaster Relief, Public Improvement (Developer Impact Fees), Home Program, Street Lighting, and Youth Endowment Services). We recommend formal adoption of our current balanced budget policy, as long as it does not interfere with legal or grantor requirements. Balances in these funds are either committed to approved projects or are to be applied to projects or programs within Federal, State, or County guidelines. In some cases, the funds could be used to meet some of the needs related to our capital improvement program. As recommended above, the funds noted by * have 15% working capital, and 5% emergency reserves recommended.

Debt Service Funds

The resources of the Debt Service Funds (Golden State, City Centre, West Olive, South San Fernando, Public Financing Authority, and Parking Authority) are legally designated for, and restricted to, payment of long-term debt. Debt Service Reserve amounts will be dictated by the bond indenture.

- 3 -

We will assume that normal revenue inflation and/or growth will go to pay normal inflation expenditures. In no event will normal expenditure increases be approved which exceed normal revenue inflation and/or growth. Any new or expanded programs will be required to identify new funding sources and/or off-setting reductions in expenditures in other programs.

Normal revenue inflation and/or growth, increased amounts from existing sources, may not always increase at a rate equal to or faster than the expenditures/expenses they support. As a result, the City Council has directed staff to avoid using such revenue as start-up revenue for new projects or programs that have ongoing costs. The City Council has stated that increases in service levels should be supported by new revenue sources or reallocation of existing resources. If normal revenue inflation and/or growth does not keep up with expenditure/expense inflation, we will decrease expenditures/expenses or seek new revenue sources. If long-term revenues grow at a rate faster than expenditure/expense inflation, the City Council can consider expanding service levels accordingly or reducing tax rates and fees under their jurisdiction.

- 4 -

We will require that all Enterprise Funds have revenues (customer charges, interest income, and all other income) sufficient to meet all cash operating

expenses, depreciation expense, and prescribed cash reserves per financial policies as recommended for each enterprise activity. Additionally, each enterprise fund shall maintain debt service coverage requirements set forth in any related bond covenants.

The City's Enterprise Funds (Water Reclamation & Sewer; Golf; Electric, Water, and Refuse Collection & Disposal) will be supported solely by revenue derived from the enterprise's operations and its interest earned on cash deposits and investments. None of these funds will be supported or subsidized by the City's General Fund. However, each Enterprise Fund will be required to reimburse the General Fund, and/or other applicable funds, for the full cost of general government support services provided to the Enterprise Fund (such as, but not limited to, computer support, accounting, legal, human resources, records management and general administration).

-5-

We will require that each Internal Service Fund, which includes vehicles, equipment, and building maintenance, have revenues, (City user charges, interest income, and all other income) sufficient to meet all cash operating expenses, and depreciation expenses. The related revenues should also be sufficient to maintain cash reserves which provide sufficient cash to replace vehicles and equipment in accordance with replacement policies.

The City uses Internal Service Funds as an internal accounting and budget mechanism to equitably distribute vehicle and equipment replacement and maintenance costs among City user departments and to help assure that adequate funding is on hand to replace/maintain the Fund's assets and pay liabilities. The City currently maintains a 1) Vehicle and Equipment Replacement Fund; 2) Office Equipment Replacement Fund; 3) Municipal Buildings Maintenance Fund; 4) Communication Equipment Replacement Fund; and, 5) Computer Equipment Replacement Fund. These funds (with the exception of the Municipal Buildings Maintenance Fund) charge rates to the City user departments which are generally sufficient to cover depreciation, operations and maintenance costs, and asset replacement.

Vehicle and Equipment Internal Service Funds

When a new asset is added to the vehicle fleet or equipment stock, the user department must budget for the full cost of the asset and transfer the funds to the applicable Internal Service Fund for acquisition purposes. The user department will then begin paying a monthly rate or charge for the use, maintenance, and eventual replacement of that asset. As a result, a newly added asset can have a significant recurring budgetary impact.

Municipal Buildings Maintenance Fund

The Municipal Buildings Maintenance Fund receives $950,000 from the General Fund plus 5% of sales tax receipts to maintain the general governmental facilities including parks. Available funds can be used for new building projects as requested through the annual budget process.

- 6 -

We will maintain appropriate reserves in the Risk Management Self-Insurance Fund and the Workers' Compensation Self-Insurance Fund to meet statutory requirements and actuarially projected needs.

General Liability and Workers' Compensation reserves are maintained in a sufficient manner to meet actuarially computed self-insurance liabilities, membership requirements for self-insurance pools and our statutory requirements for Workers' Compensation.

In order to meet the requirements of this proposed policy, the City must maintain sufficient cash reserves to meet the demands of the self-insured retention levels as required by self-insurance pools and the State. In addition, an actuary shall make an analysis every two years of the self-insurance cash reserves in light of actuarially determined fund liabilities for current and future claims. The insurance rates charged to City departments are adjusted up or down based on the surplus or deficiency of cash reserves as determined by the actuary.

If the reserves drop below levels prescribed by this policy and cannot be readily replenished through increased user rates, then staff will bring the matter to the City Council's attention. In discussing the reserve inadequacy with the City Council, staff will make every effort to give the City Council viable options in choosing the best course of corrective action.

The General Liability Insurance Fund currently appropriates $100,000 a year for Accidental Death and Dismemberment and $500,000 for earthquake insurance in-lieu of paying insurance premiums. The $100,000 functions as a revolving fund and will be replenished if all or a portion is used. The $500,000 per year for earthquake insurance will be set aside until $10 million is accumulated for major disasters to City facilities.

- 7 -

We will maintain a general operating reserve which will support operations for each Enterprise Fund during times of financial emergencies. The amount of the general operating reserves will be determined based on a risk assessment of each Enterprise Fund.

The City Council has directed staff to ensure that each Enterprise Fund maintains sufficient reserves to provide enough funds to allow the City Council to react and adopt a financial plan which can adequately deal with a variety of adverse economic circumstances which may materialize. A common "general operating" reserve standard for Enterprise Fund operations that bond rating agencies and bond insurance companies look for ranges anywhere from 30 to 60 days. Applicable cash capital improvement and equipment replacement reserves are also maintained in each Enterprise Fund.

Because of unforeseen circumstances, if the working capital or capital improvement reserves drop below levels prescribed by this policy, then staff will present the City Council with various options for curing the deficiency (ies).

Current general operating reserve requirements for the Enterprise funds are as follows:

- Water Reclamation and Sewer:
  - 60 days of working capital

- Golf Fund:
  - 60 days of working capital

- Electric Utility (comprised of sub-reserves):
  - Revenue Reserve
  - Power Supply Reserve
  - 60 days of working capital

- Water Utility (comprised of sub-reserves):
  - General Consumption/Sales Decrease
  - Water Supply
  - 60 days of working capital

- Refuse Collection & Disposal:
  - 60 days of working capital

- 8 -

We will maintain other Enterprise Fund reserves such as debt reduction and capital funding reserves, fleet replacement reserves, and general plant reserves (in addition to the general operating reserve and other reserves) as necessary and prudent for the operation of each specific Enterprise Fund. Such reserves will be reviewed annually as necessary during the budget process, or at least every 2 years.

The actual reserves listed above will be determined on a fund by fund basis. These reserves are intended to reduce outstanding debt and, fund major capital projects, fund ongoing fleet replacements, and provide for replacement, improvement, modernization, and or expansion of the general plant infrastructure and facilities that would generally be of an unanticipated nature and that could not readily be funded by other sources.

Because of unforeseen circumstances, if any of the reserves listed above drop below levels prescribed by this policy, then staff will present the City Council with various options for replenishment.

Current debt reduction and capital reserves, fleet replacement, and general operation reserve requirements for the Enterprise Funds are as follows:

- Water Reclamation and Sewer:
  - Sewer Facilities Fee reserve
  - 20% of the 5 year capital plan
  - Annual Hyperion Plant contribution

- Golf Fund

    - $500,000 for Capital Funding

- Electric Utility
    - Debt Reduction and Capital Funding: 20% of 5 year Capital Plan
    - Fleet Replacement
    - General Plant

- Water Utility
    - Debt Reduction and Capital Reserve

- Refuse Collection & Disposal
    - 20% of the 5 year Capital Plan
    - Fleet Replacement
    - Landfill Closure/Post Closure reserve

-9-

We will maintain a long-range fiscal perspective through the use of an annual operating budget, a five-year capital improvement plan, and a five-year financial forecast.

A long-range financial perspective is essential to provide a more comprehensive and thorough overview of the City's long-term financial needs. Components of this plan include the use of an annual operating budget and a five-year financial forecast with revenue and expenditure projections. The approach will be supported by staff's use of historical data, current economic trends and identification of future financial events. In addition, a five year Capital Improvement Program will be maintained and annually updated to help the City Council better understand the potential long-term funding sources and capital improvement needs, as well as operational impacts related to the capital improvement projects.

-10-

We will use long-term financing methods or cash accumulated in excess of policy requirements for major capital improvements and acquisitions. These improvements will be planned via the annual capital improvement plan process.

The traditional method for a local government to obtain funds for Capital Improvements has been to use accumulated resources or to issue long-term debt instruments such as municipal bonds, which mature 20 to 30 years from the date of issuance. In general, a municipal bond issue's maturity should approximate the useful life of the asset being financed.

Major long-term capital improvement needs should be financed, as much as possible, with long-term debt. Short-term capital improvements needs should be funded with accumulated cash balances or if needed short-term debt. The City Council has also stated that it is acceptable to use cash which has been accumulated in excess of policy requirements to pay for either long-term and/or short-term capital improvements. The actual use of debt financing or accumulated cash for such projects will be determined by the City Council during the annual budget process. It is the City's practice to use whatever financing mechanism(s) that best meets the goals and objectives of the applicable capital replacement or acquisition.

-11-

We will issue bonds or incur other forms of indebtedness only for appropriate purposes and only if the debt service does not affect the City's ability to meet future operating, capital and reserve requirements.

This Debt Management Policy (the "Debt Policy") of the City of Burbank (the "City") was approved by the City Council on June 27, 2017. The Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), and shall govern all debt undertaken by the City, any of its Department, the Burbank Public Financing Authority, Burbank Housing Authority, Burbank Parking Authority or Successor Agency to the Redevelopment Agency of the City of Burbank (collectively "City").

The City hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City's sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City.
- Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budget, as applicable.

2. Policies

A. Purposes for Which Debt May Be Issued

(i) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the City.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed provides a community benefit.

- When the project to be financed will provide benefit to constituents over multiple years.

- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.

- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The City may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the City Council.

- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project.

- The City estimates that sufficient revenues will be available to service the debt through its maturity.

- The City determines that the issuance of the debt will comply with the applicable state and federal law.

(ii) Short-term debt. Short-term debt may be issued to provide financing for the City's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

(iii) Financings on Behalf of Other Entities. The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

B. Types of Debt

The following types of debt are allowable under this Debt Policy:

- general obligation bonds

- bond or grant anticipation notes

- lease revenue bonds, certificates of participation and lease-purchase transactions

- other revenue bonds and certificates of participation
- tax and revenue anticipation notes
- land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- tax increment financing to the extent permitted under state law
- conduit financings, such as financings for affordable rental housing and qualified 501 (c) (3) organizations

The City may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the City Council makes a specific determination as to why a variable rate issue would be beneficial to the City in a specific circumstance.

C. Relationship of Debt to Capital Improvement Program and Budget

The City is committed to long-term capital planning. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The City shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes.

The City shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The City shall seek to keep general fund supported debt service at no greater than the lessor of 10% of available general fund revenues or expenditures.

D. Policy Goals Related to Planning Goals and Objectives

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration as evidenced in the City Council approved Financial Polices. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's annual operations budget.

It is a policy goal of the City to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The City will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and

It is the policy of the City to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the Finance Director or designee and for Burbank Water and Power (BWP) issuances the signature of its General Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Finance Director or for BWP issuances its General Manager shall retain records of all expenditures of proceeds through the final payment date for the debt.

- 12 -

We will require each budget appropriation request to include a fiscal impact analysis.

Throughout any budget year there are many items brought before the City Council for consideration. The decisions it makes on these items often require the expenditure of funds. If the decision results in approval of funds already appropriated in the budget, the fiscal impact is already known. But, if the decision includes spending more than anticipated in the budget or requires a whole new appropriation, the fiscal impact needs to be thoroughly analyzed. To this end, the City Council now requires that all requests to

Council for new or supplemental budget appropriations must be accompanied by a "Fiscal Impact Statement." This should include:

- *Amount of Funds Requested*

- *Source of Funds Requested*
  - *New revenue*
  - *Reallocation of existing revenue*
  - *Unappropriated Fund Balance*
  - *Designated Reserve*
- *Impact of Request/as Applicable*
  - *New rates or fees*
  - *Decrease in any activity to support more activity*
  - *Why would we use reserves versus new or reallocation revenue?*

- 13 -

We will comply with all the requirements of "Generally Accepted Accounting Principles".

This policy is self-explanatory. We sometimes hear stories of how public or private entities use "creative accounting" to paint a more positive picture than might really exist. As per City Council direction, staff will always conduct the City's financial affairs and maintain records in accordance with Generally Accepted Accounting Principles as established by the Government Accounting Standards Board. This process should help in maintaining accuracy and public confidence in the City's financial reporting systems.

- 14 -

Subject to these Financial Policies, and in order to recruit and retain a well-qualified workforce to provide exceptional services, we will compensate employees at a level commensurate with the average of Burbank's relevant labor market. The City and employees will evenly share the Normal Cost of employee pensions.

In determining compensation based on Burbank's relevant labor market, the City takes into consideration: 1) The general state of the economy; 2) the cost-of-living, measured by the Los Angeles Riverside – Orange County Urban Wage Earners and Clerical Workers Consumer Price Index; 3) the City's ability to pay; and, 4) an evaluation of the "survey average" from the "comparison employers" as negotiated with the City's labor associations.

In using a market survey of similar positions in comparable cities, the City is committed to paying the simple average of the surveyed cities. Our employees will not lead the group nor will they ever be last, but they will always be competitive. Fair compensation helps to assure not only quality candidates for Burbank jobs, but also provides stability for the City's labor relations environment. The logical consequence of this philosophy is that when resources are scarce, the City will continue to pay competitive wages. However, the City may lag behind the survey average or have to employ fewer people or reduce other line item expenses.

In addition, the City follows a philosophy of "pay for performance." The concept of "pay or performance" versus a system that pays more simply for years of service is one that is generally stressed in the City's labor agreements. It is the intent of this system to financially reward those who perform at significantly greater levels than others. The combination of the dual commitment to use "market level" compensation and "pay for performance" helps assure a continuation of high-quality employees and a rational framework for compensation.